

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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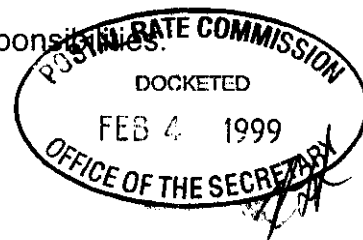
INTERNATIONAL MAIL REPORT

DOCKET NO. IM99-1

**REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN ACCORDANCE WITH COMMISSION ORDER NO. 1226
(February 5, 1999)**

PROCEDURAL HISTORY

On December 16, 1998, UPS filed a petition with the Postal Rate Commission asking that it initiate a rulemaking to establish rules governing the Postal Service's production of cost, revenue, and volume information for international mail services under 39 U.S.C. § 3663. In Order No. 1226 issued on January 15, the Commission determined to postpone initiating a rulemaking to formulate permanent rules requiring production of specific data until sometime after July 1, 1999, when its first report under § 3663 is due. The Commission explained that it would not have sufficient time to conduct the rulemaking in advance of the July 1 deadline. Nevertheless, the Commission's Order initiated Docket No. IM99-1 and invited comments from interested persons on suggestions for preparing this year's report. In particular, the Commission invited the public to comment or make recommendations by January 29, 1999, on (1) the international mail products or services that should be analyzed under section 3663, (2) additional data that would be helpful to the Commission in performing its 3663 functions, and (3) any other issues relevant to the Commission's 3663 responsibilities.



The Postal Service, the Advertising Mail Marketing Association (AMMA), the Office of the Consumer Advocate (OCA), United Parcel Service (UPS), and Federal Express (FDX) submitted comments in response to Order No. 1226.¹ FDX moved for leave to file its comments out of time on February 1, 1999. As of the date of this pleading, the Commission has not ruled on FDX's motion; however, the Postal Service has undertaken to reply to FDX's comments in this submission.

SUMMARY OF THE COMMENTS

In an attachment to Order No. 1226, the Commission identified the international mail services that it believes might be appropriate candidates for § 3663 reporting. The Postal Service's comments focused on the list in the attachment and observed that, for some categories, cost, revenue, or volume data are not tracked or maintained, or, for low volume categories, lack utility. The Postal Service accordingly suggested that costs, revenues, and volumes for some categories be reported in the aggregate for purposes of the Postal Service's filing this year.

AMMA commented that some international mail categories are not akin to homogeneous domestic classes and subclasses, and disaggregation of some categories is impossible. AMMA favored limiting the Commission's responsibility to making findings to the effect that no portion of total accrued cost of international mail is subsidized by domestic revenues and that international mail, on the whole, covers its direct and aggregate shortrun variable costs.

¹ Comments of the United States Postal Service in Response to Commission Order No. 1226 (filed January 29, 1999); Comments of the Advertising Mail Marketing Association (filed January 29, 1999); Office of the Consumer Advocate Comments in Response to Order No. 1226 (filed January 29, 1999); Comments of United Parcel Service in Response to Commission Order No. 1226 (January 29, 1999); and

The OCA focused principally on the Postal Service's § 3663 filing responsibilities and recommended that the Commission direct that the Postal Service to provide the following:

- the International Cost and Revenue Analysis (ICRA),
- the Cost Segments and Components (CSC) report,
- accounts uniquely associated with international products or services,
- detailed reports from each sampling system, including LIOCATT distributions, IOCS activity codes, TRACS data, and carrier costs,
- RPW data for international as a whole and for discrete categories,
- detailed financial records of revenues,
- complete billing determinants for each product and service,
- analyses showing positive contribution to institutional costs,
- terminal dues,
- report of the USPS Inspector General on allocation of costs for developing international rates,
- marketing plans, and
- statements and documents given to Congress and the General Accounting Office (GAO).

UPS commented that the attachment to Order No. 1226 appeared to be "reasonably complete," but suggested that the Postal Service furnish, as soon as possible, a complete list of international products with volumes. UPS further recommended that the Commission direct its attention to a designated list of services having high volumes or facing intense competition. In addition, UPS stated that the Commission should direct the Postal Service to provide the following:

- the ICRA and the international version of the Cost Segments and Components report,
 - a description of how the Postal Service allocates costs to international services,
 - handbooks and manuals for international services,
 - costs of resources dedicated to providing particular services,
 - costs for creating and operating an electronic customs clearance system,
 - costs, disaggregated by service, paid to contractors that deliver certain international
- (..continued)

Comments of Federal Express in Response to Order No. 1226 and Request for Leave to File Late (filed February 1, 1999).

- products,
- transit charges incurred,
- air conveyance dues,
- all agreements setting forth the terminal dues or rates of compensation due for delivering international products,
- imbalance payments,
- matching volumes for each foreign destination,
- costs of joint ventures with foreign posts, and
- costs of the organizational units within the International Business Unit and Global Support Center dedicated to Global Package Link or other competitive services.

In an appendix to FDX's comments, it provides a list, constructed from the International Mail Manual (IMM) and various *Federal Register* notices, of what it believes identifies the international mail services offered by the Postal Service. Presumably, FDX intends that the Commission adopt this listing for purposes of the Postal Service's cost, revenue, and volume report. FDX further suggested that the Postal Service disaggregate costs so that costs to and from Canada and Mexico are reported separately from each other and from the rest of the world. FDX also recommended that the Commission should analyze each terminal dues regime separately; identify certain institutional costs dedicated to international; and review historical data.

The United States Postal Service hereby responds to the comments of the parties as follows. In general, the Postal Service basically agrees with AMMA's position that the Commission could reasonably limit its objective to the responsibility of reporting whether international services, on the whole, are self-sustaining and whether international services collectively make reasonable contributions above volume variable costs. As explained below, the Postal Service also does not oppose many of the recommendations for production of data offered by the other participants. The Postal

Service is concerned, however, that the comments contemplate transforming § 3663 proceedings into unlimited, costly, time-consuming, and burdensome international ratemaking proceedings, an alternative which the OCA observed is one that Congress explicitly rejected. See OCA Comments at 9.

DISCUSSION

At the outset, the Postal Service notes that these comments will not address certain premises or conclusions critical of current costing practices or international rates that appear to underlie some of the comments filed by UPS, FDX, and the OCA. The OCA, in particular, has recited an inflammatory chronicle and characterization of historical and current events and practices as an overture to its specific comments regarding data requirements. While the Postal Service decidedly takes issue with the OCA's comments in many respects, it will not attempt to respond to or rebut them here. As indicated in its response to Order No. 1226, the Postal Service believes that the salient need at the moment is to assist the Commission to produce a timely initial report. Accordingly, these reply comments, like the Postal Service's original response, will focus on the practical problems of providing the Commission with data and information adequate to meet its responsibility to submit an initial report to Congress by July 1, 1999.

We also note that there is considerable overlap in the comments filed by the OCA, UPS, and FDX regarding minimum expectations for data and information. Some of these are apparently based on presumptions about the existence and presentation of such data and information that do not comport with the ways such information is collected and reported in the ICRA and associated workpapers and documentation.

They are also based in part on the commenters' own characterizations of the structure of international mail products, international postal markets, and product and country relationships. While these characterizations are not in many respects unreasonable or fundamentally inaccurate, they do not necessarily create realistic expectations for provision of data in the categories and forms identified by the commenters.

Accordingly, the Postal Service will begin with several general observations qualifying the commenters' expectations and the Postal Service's capabilities, particularly in the context of the time frames for data production and reporting contained in § 3663.

First, the OCA and FDX, and to a certain extent UPS, share an overbroad view of the level at which products can and should be disaggregated for purposes of the initial report. In this connection, the Postal Service believes that, except as qualified in its response to Order No. 1226, the products listed by the Commission in the attachment to that order consist of those that, as a practical matter, can be successfully reported based on existing data. Further disaggregation in the report, especially as outlined in Appendix A to FDX's comments, would be problematic in two important respects. First, data by country in many categories is extremely sensitive commercially and should not be publicly reported. Furthermore, some of the suggested breakdowns of data by country are not reported by the ICRA. Second, the product subcategories contained in FDX's Appendix either do not conform to the collection and reporting of data for the ICRA, or would present problems of reliability if extraction of such data were attempted. For example, FDX suggests three subcategories of International Priority Airmail (Full

Service, Dropship, and Bulk Letter Service to Canada).² While revenue and volume results in these categories could be compiled from existing data, costs are not available. Extraction of such data by these subcategories might be attempted, but the statistical sample representing IPA overall is so small that any attempt to split it among subcategories would yield bases too small on which to estimate costs reliably. In fact, this circumstance prevails already with respect to certain of costs for categories that are reported in the CRA, and for some of the categories that are aggregated for reporting purposes. As a result, the Postal Service in some instances employs average costs in place of costs that are difficult to estimate reliably. To this extent, the subcategorization suggested by the commenters would not yield meaningful information in any event. As another example, the same conclusions could be drawn with respect to FDX's suggested subcategories of Worldwide flat rate and Worldwide single piece within Global Priority Mail.

In these respects, we do not exclude categorically the possibility that existing data might be mined to produce some information in the subcategories contained in FDX's comments, or those suggested by the comments filed by UPS and the OCA. With respect to all of these proposed data separations, however, substantial obstacles emerge in the form of limitations on time and resources at present. The Postal Service has accelerated its production schedule for the ICRA with the objective that information from it will be produced in connection with the Commission's needs under § 3663.³ In

² The Postal Service does not consider Bulk Letter Service to Canada a subcategory of IPA.

³ This is an exceptionally difficult task to accomplish. The FY97 ICRA took much longer to complete from the close of that fiscal year, and § 3663 was enacted on October 19, 1998, giving the Postal Service little time to plan and allocate resources for meeting its § 3663 responsibilities by March 15, 1999.

current circumstances, there is simply no room in that schedule to develop, execute, and refine specialized programs to extract data in categories other than those typically developed. Any reallocation of time and resources in that effort would significantly jeopardize the Postal Service's ability to produce the ICRA in time for the March 15 deadline.

As a second general observation, we note UPS's comment that the Postal Service should provide a detailed description of how it currently allocates costs to international services. UPS Comments at 4. The OCA, further, itemizes specific documentation that it expects the Postal Service to provide in connection with the Commission's data requirements. For example, the OCA identifies "detailed reports from each sampling system, including LIOCATT reports," TRACS reports, and particular rate case workpapers for international costs, as essential elements of the information the Postal Service should provide. OCA Comments at 12-13. With respect to these expectations, the Postal Service does intend to provide a descriptive attachment to the material reported from the ICRA that will explain the general structure and procedures of cost allocation to international products and services. Substantial documentation will also be provided supporting the ICRA results. To the extent that the general description provided will not specify every step in the cost allocation process, the documentation itself should indicate the procedures followed, through annotations or otherwise.⁴

A couple of caveats, however, need to be noted. First, it would be incorrect to presume that direct analogs for sources, categories of data, and procedures exist in

⁴ The Postal Service expects to be able to provide pertinent information from the ICRA Report by March 15. It will endeavor to provide documentation and workpapers as soon as possible; however, at the

every instance in the ICRA report and its documentation, in relation to the material typically submitted to the Commission in support of the domestic CRA. In fact, there are common elements between the two reports, but there are also differences. In this respect, the Postal Service is confident that the documentation provided will prove to be adequate for the Commission to analyze cost allocation for the purpose of its report to Congress. Should questions arise or gaps in needed information be detected by the Commission in its analysis, the Postal Service will be available after the March 15 deadline until the report is issued to answer questions and provide additional information, if it is available.⁵

Second, with respect to country-specific data, the Postal Service will not attempt to extract this information from the underlying documentation, so it will be available for the Commission's review. Nevertheless, we once again urge the Commission to treat this data as commercially sensitive and not to disclose it publicly or make it available to competitors, even under protective conditions as suggested by the commenters. In this respect, the Postal Service underscores the fundamental difference between the Commission's responsibilities to provide due process in connection with its ratemaking function under 39 U.S.C. § 3624, and its responsibility to report to Congress under 39 U.S.C. § 3663. While, in certain circumstances, due process in a Commission ratemaking proceeding might dictate access to commercial information, even to competitors, the Commission's capability and credibility in reporting to Congress clearly

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present it is likely that full documentation will not be available before the end of March.

⁵ The Postal Service is limited in its ability to describe in this pleading the detailed structure and contents of the documentation and workpapers being prepared to support the ICRA. Consequently, the Postal Service will readily respond to inquiries from the Commission concerning what will or will not be contained

do not require public disclosure, either legally or as a practical matter. The Postal Service firmly believes that disclosure of such information would be deleterious to its authority and responsibility to provide competitive international services.

As a final general observation, we note FDX's lengthy discussion regarding the proper treatment of terminal dues in the cost allocation process. FDX Comments 5-8; Appendix B. While we will not at this time attempt to address in detail FDX's criticisms of the mechanisms producing terminal dues, or its economic assessment of the merits of terminal dues payments as measures of costs for pricing purposes, the Postal Service submits that such comments are not critical to the Commission's report on international costs, volumes, and revenues, even under approaches it typically takes to cost analysis for domestic services. Regardless of the merits of the process that dictates terminal dues, they constitute concrete elements of the expenses incurred to provide international services that must be recovered through international prices. In the context in which international prices are set, furthermore, the Postal Service is confident that it allocates terminal dues properly, and that the information it intends to provide the Commission will adequately explain their role in establishing international service costs. Beyond that, the economic or philosophical merits of terminal dues might be worthy of public debate, but the type of analysis suggested by FDX is simply not required or warranted by the Commission's responsibility under 39 U.S.C. § 3663. Nor has FDX been particularly helpful in identifying for the Commission the use to which it should put information representative of "each terminal dues regime," or how it is to evaluate "correct" international prices.

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in the materials in order for the Commission to reach a determination in this matter.

In the following, the Postal Service will comment on several of the specific information requirements identified in the comments filed by the OCA, UPS, and FDX.

Expenses uniquely related to international services. Each of the above three commenters identify as information that should be disclosed expense items that are incurred, either directly to provide particular international services, or to support international mail services generally. UPS Comments at 4-6; OCA Comments at 12. FDX identifies such costs as the expenses of the international affairs office, international travel costs, and costs of participating in the Universal Postal Union as institutional costs that should be separately provided. FDX Comments at 8. The Postal Service submits that to the extent these data are available, they are already reflected in the ICRA documentation and workpapers, just as the appropriate allocations of these expenses between international and domestic services overall are reflected in the CRA in domestic ratemaking presentations.⁶ Furthermore, the Postal Service notes that to the extent that FDX suggests that institutional costs should be specifically allocated, this would be a departure from the Commission's approach to domestic cost allocation.

Handbooks and manuals. UPS lists two specific handbooks and the general category of pertinent operations manuals as items that should be provided. UPS Comments at 4. Generally, UPS's contention is that such materials "may shed light on the operations that cause costs to be incurred." The Postal Service submits that this speculation creates a dubious foundation for a Commission need in connection with its report on costs, volumes, and revenues. It therefore believes that production of such

⁶ To the extent questions arise about whether specific items will be identified in the documentation and workpapers, the Postal Service will readily respond to the Commission's inquiries.

handbooks and manuals should not be required. Furthermore, certain of these materials might contain commercially sensitive information that should not be publicly disclosed or provided to Postal Service competitors.

Cost Segments and Components Report. The OCA presumes that an international Cost Segments and Components report will be produced in connection with the ICRA. This is not the case, although analogous information will be contained in the documentation and workpapers provided in connection with ICRA information.

Transit charges, air conveyance dues, and imbalance payments. UPS identifies these expenses as items that must be provided. These will be reflected at the level reported in documentation and workpapers provided with the ICRA information.

Terminal dues agreements. The Postal Service does not believe that the actual terminal dues agreements need be provided to enable the Commission to provide a report on costs, volumes, and revenues. Rates establishing terminal dues payments will be reflected in the ICRA documentation and workpapers. To the extent such agreements have been made public information, furthermore, they can be provided. Other agreements the disclosure of which might affect the Postal Service's ability to negotiate with other postal administrations in the future should not be made public.

RPW detail. The OCA specifies as required information detailed RPW data pertaining to international mail as a whole or discrete products. As qualified above with respect to country-specific data, such information will be included in the materials the Postal Service intends to submit.

Financial records showing accrued revenues and international billing determinants. Information detailing accrued revenues by product to the extent

available will be provided with ICRA documentation and workpapers. Detailed international billing determinants for FY 1998 will not be available by March 15.

Analyses showing contributions by product. In the categories outlined in Order No. 1226, except as qualified in the Postal Service's initial response and these reply comments, contributions will be reflected in the ICRA information provided.

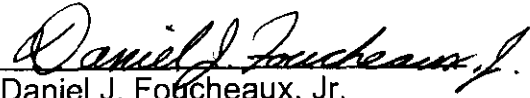
Information provided to Congress and the GAO. The OCA's description of and claim for documents and information provided to Congress and the GAO is overly vague and based only on the supposition that what might have been pertinent to the these bodies' inquiries would be needed by the Commission. The Postal Service expects that sufficient information to report on costs, revenues, and volumes will be provided in the ICRA materials for the products listed by the Commission. If the Commission finds gaps or omissions in the data that are necessary for its analyses, the Postal Service will attempt to provide suitable information to meet its needs.

Inspector General report. This will be provided when it is made public.

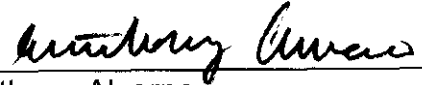
Marketing plans. Marketing plans are not likely to provide information that is useful for the Commission's report under § 3663. These reports discuss the Postal Service's future plans, and are not intended to serve as vehicles for reporting cost, revenue, and volume information of international services. Moreover, they do not provide information superior to that contained in the ICRA materials the Postal Service intends to provide, which will represent the best information assembled by the Postal Service for internal use and for pricing. Furthermore, by their nature such marketing documents are sensitive commercially and should not be provided.

UNITED STATES POSTAL SERVICE

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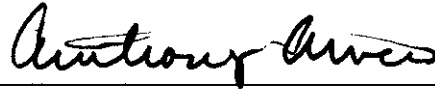


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Anthony Alverno", written over a horizontal line.

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